

**UNIVERSITY OF TENNESSEE**  
Office of Real Estate Administration

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**REQUEST FOR PROPOSALS**

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**Oil & Gas Interests**  
**(and other hydrocarbons, including coal bed methane)**

**LEASE PROPOSAL PACKAGE**

**Transaction Number: 06-02-008**

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Please review the above contents list and advise if any documents are missing.

TO: Interested Proposers  
FROM: University of Tennessee  
Oil & Gas RFP/Lease  
RE: 8,600 +/- acres  
Morgan and Scott County  
Trans. No. 06-02-008

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Enclosed is a bid package for the above captioned property. The University of Tennessee makes no warranties or representations of any kind whatsoever as to the presence, quality, or quantity of oil and gas (and other hydrocarbons, including coal bed methane) that may be located on the property.

The property is scheduled for advertisement in the Public Notice section of the *Knoxville News Sentinel* and *The Tennessean* on February 8, 2009 and February 15, 2009. Bids are due no later than March 9, 2009 at 2:00 p.m. ET at the Office of Real Estate Administration, University of Tennessee, 1331 Circle Park, 711 Andy Holt Tower in Knoxville, Tennessee 37996-0174.

Interested proposers are invited to inspect the property on February 23, 2009. All persons interested in inspecting the property should gather at the headquarters of the Cumberland Forest Unit of the University of Tennessee Agricultural Experiment Station's Forest Resources Research and Education Center located at 515 Cassell Road, Oliver Springs, Tennessee at 8:30 a.m. ET on February 23, 2009.

Questions concerning the RFP must be submitted in writing on or before February 27, 2009, to the Office of Real Estate Administration, University of Tennessee, 1331 Circle Park, 711 Andy Holt Tower, Knoxville, Tennessee 37996-0174.

Please contact Mr. Robbi D. Stivers at (865) 974-2441 if you need any additional information.

**Lease of Oil & Gas Interests  
(and other hydrocarbons, including coal bed methane)**

**Morgan & Scott County  
Tennessee**

**BY  
THE UNIVERSITY OF TENNESSEE  
TR. 06-02-008**

**"AS IS"**

The University of Tennessee requests sealed bids for the lease of oil and gas interests (and other hydrocarbons, including coal bed methane) on certain lands comprised of approximately 8,600 +/- acres located in Morgan County and Scott County, Tennessee.

The University will accept sealed bids until **2:00 p.m. ET on March 9, 2009** at the address below. The University reserves the right to reject any and all bids.

For a bid package, or additional information, please contact:

**Mr. Robbi D. Stivers  
Office of Real Estate Administration  
1331 Circle Park, 711 Andy Holt Tower  
Knoxville, TN 37996-0174**

**Phone: (865) 974-2441  
Fax: (865) 974-1324  
Email: [rstivers@tennessee.edu](mailto:rstivers@tennessee.edu)**

Questions concerning the RFP must be submitted in writing on or before **February 27, 2009**, to the Office of Real Estate Administration, University of Tennessee, 1331 Circle Park, 711 Andy Holt Tower, Knoxville, Tennessee 37996-0174.

**INSTRUCTIONS FOR SUBMISSION OF PROPOSAL**  
**AS PER THE ENCLOSED REQUEST FOR PROPOSAL (RFP)**

1. **METHOD:** Lease award is to be by the sealed bid method. The University of Tennessee reserves the right to refuse or reject any or all bids.
2. **OPENING:** Proposals will be received until **2:00 p.m. ET on March 9, 2009**. Proposals received after this time and date will be rejected and not considered for lease award. Proposals may be delivered in person, by United States mail, or other couriers. **Facsimile and electronically transmitted (e-mail) proposals are not acceptable.** It is the proposer's responsibility to ensure that its proposal is mailed or delivered in sufficient time to arrive at the University's Office of Real Estate Administration by the submission deadline. Proposals must be submitted in an envelope or package and plainly marked in the lower left-hand corner "**Proposal for Oil and Gas Lease, Due on March 9, 2009, at 2:00 p.m. ET**" (The envelope or package must contain two (2) sealed envelopes. One sealed envelope must contain the "revenue proposal" (RFP Sections 2.02 – Attachment B and 2.03.1). The other sealed envelope must contain the "technical proposal" (RFP Sections 2.03.2, 2.03.3 and 2.03.4). Each sealed envelope must be clearly marked as to its contents.) Proposals should be addressed to the Office of Real Estate Administration, University of Tennessee, 1331 Circle Park, 711 Andy Holt Tower, Knoxville, TN 37996-0174. **Proposals from lease brokers will not be considered.**

Each proposer's response to this RFP must include the Request for Proposals Response Form (hereafter the "Response Form") that is attached as Attachment B to the RFP. Failure to submit the Response Form, failure to provide, include, or to complete fully all of the information requested in the Response Form, or failure to sign the Response Form shall result in the rejection of proposer's response to the RFP. The "Response Form" must be included in the sealed envelope clearly marked "revenue proposal."
4. **SECURITY DEPOSIT:** Each proposal must be accompanied by a proposal binder in the form of a certified or cashier's check in the amount of the lease bonus (see RFP Sections 2.03.1.2 and 2.04) offered by proposer (to be included in the sealed envelope marked "revenue proposal"). If the University accepts the proposer's proposal and enters into a lease agreement with the proposer, the bid binder shall be applied to the bonus payment requirements of the lease. If the successful proposer fails to or refuses to enter into the oil and gas lease within the time allowed, then proposer's binder shall be forfeited and the University shall be entitled to retain it.
5. **RFP QUESTIONS:** Questions concerning the RFP or Lease must be submitted in writing on or before February 27, 2009, to the Office of Real Estate Administration, University of Tennessee, 1331 Circle Park, 711 Andy Holt Tower, Knoxville, TN 37996-0174.
6. **AWARD OF BID:** Every proposal shall be binding upon the proposer for ninety (90) calendar days following the deadline date for the submission of proposals.

**UNIVERSITY OF TENNESSEE  
REQUEST FOR PROPOSALS ('RFP') FOR OIL AND GAS LEASE**

**SPECIFICATIONS**

**1.0 GENERAL INFORMATION**

1.01 The University of Tennessee is seeking proposals for the lease of its interest in oil and gas rights (and other hydrocarbons, including coal bed methane) on certain lands located in Morgan County and Scott County, Tennessee.

1.02 The tracts of land being offered for oil and gas production (hereafter referred to as the "Property") are more particularly described as follows, to-wit:

The foregoing, comprising eight thousand six hundred (8,600) acres, more or less, less and except any existing leases (by Lease Agreement dated August 28, 1991, a Memorandum of which is recorded on May 12, 1992 in Oil and Gas Lease Book 38, Page 24 in the office of the Register, Morgan County, Tennessee, hereinafter referred to as "1991 Lease," The University of Tennessee, leased land located in Morgan County, Tennessee, to American Gas Technologies, Inc., as Lessee, and, furthermore, being the same by Assignment effective May 29, 1992, and recorded in Book M, Volume 49, page 414, Oil & Gas Lease Book 38, page 75 in the Office of the Register, Morgan County,

Tennessee, American Gas Technologies transferred and assigned its interest in and to the 1991 Lease to Tennessee Energy Pipeline & Storage Company, Tennessee Energy Pipeline and Storage Co., Canonie Energy, Inc., WGI, Inc., Coal Creek Mining and Manufacturing Company, American Resource Management, Inc., and American Energy Exploration, Inc., and being the same land conveyed to Lessor by The Bryn Mawr Mining and Land Company deed dated January 5, 1937, recorded in Deed Book E, Vol. 4, Page 411-416, Morgan County, Tennessee Registers Office; The Bryn Mawr Mining and Land Company deed dated January 5, 1937, recorded in Deed Book 66, Page 363, Scott County, Tennessee Registers Office; R. B. Cassell deed dated July 17, 1950, recorded in Deed Book Y, Vol. 4, Page 416-419, Morgan County, Tennessee Registers Office; by Ezra Worley and wife, Josie Worley, deed dated March 11, 1957, recorded in Deed Book I, Vol. 5, Page 444-446, Morgan County, Tennessee Registers Office; and by Molly Cheryl Butler Goforth Hampton, husband, Larry Hampton through Petition of Condemnation dated October 21, 1991 and Order of Taking dated January 30, 1992, recorded in Miscellaneous Series 47, page 424, Morgan County, Tennessee Registers Office.

- 1.03 The oil and gas lease, if awarded, will remain in force for a minimum or primary term of five (5) years. Provisions will be made for maintaining the lease in effect for three (3) renewal periods of five (5) years each with payment of the required per acre minimum annual rental for portions or all of the Leased Premises for a maximum period of twenty (20) years or so long thereafter as oil and/or gas is severed and sold from portions of the Leased Premises in paying quantities (see lease document, Attachment A, for more details pertaining to term).
- 1.04 The University does not warrant title to the Property or minerals described in paragraph 1.02 hereof. All proposers should satisfy themselves as to the University's title to the Property and as to the accuracy of the acreage being offered for lease.
- 1.05 Proposers are solely responsible for satisfying themselves as to the presence, quantity, and quality of the oil and gas, if any, which may be located on the Property that will be subject to the lease. The University makes no warranties or representations of any kind whatsoever as to the presence, quality, or quantity of oil and gas that may be located on the Property.

- 1.06 The lease awarded to the successful proposer shall be on the University of Tennessee's oil and gas lease form that will incorporate the proposer's proposal as negotiated. A copy of the lease form with blank spaces where proposer-provided information will be inserted is included herein as Attachment A.
- 1.07 The requirement of a minimum royalty rate and a lease bonus payment is not to be construed or deemed to be an acceptance by the University of any RFP response which may propose a royalty rate and/or a lease bonus in excess of such minimum rates and bonus.
- 1.08 Proposals must be made in the official name of a firm or individual (no lease brokers) under which exploration and production will be conducted (showing official business address) and must be signed by a person or persons authorized to legally bind the person, partnership, company, or corporation submitting the proposal (See Request for Proposals Response form - Attachment B).
- 1.09 By submitting a proposal, the proposer agrees to be governed by the terms and conditions set forth in this RFP.

1.10 If material errors are found in a proposal, or if a proposal fails to materially conform to the requirements of the RFP, the proposal may be rejected. Data and information submitted in the proposal should be prepared in a manner designed to provide the University with a straightforward presentation of the proposer's capability of satisfying the requirements of this RFP.

1.11 Proposers shall be responsible for fully acquainting themselves with the condition of the Property that may affect proposer's ability or capacity to drill and produce oil and gas from the Property, which will be subject to the lease. Failure or omission of any proposer to acquaint itself with existing conditions shall in no way relieve it of any obligation with respect to this RFP or the oil and gas lease, if awarded.

1.11.1 Interested proposers are invited to inspect the property on the following date **February 23, 2009**. All persons interested in inspecting the property should gather at the headquarters of the Cumberland Forest Unit of the University of Tennessee Agricultural Experiment Station's Forest Resources Research and Education Center located at 515 Cassell Road, Oliver

Springs, Tennessee at 8:30 a.m. ET on February 23, 2009.

- 1.12 Every proposal shall be binding upon the proposer for ninety (90) calendar days following the deadline date for the submission of proposals. Proposals will be on file and open to public inspection after the evaluation is completed. The successful proposal and the oil and gas lease are subject to the approval of Tennessee's State Building Commission. The successful proposer shall have sixty (60) days following the date of the State Building Commission's approval to enter into the oil and gas lease with the University.
- 1.13. As security for its performance of the lease, the successful proposer will be required to deliver at execution of the lease, and maintain throughout the term of the lease, an unconditional, clean, irrevocable stand-by sight letter of credit or a certificate of deposit payable in the name of the University of Tennessee in the amount of \$300,000 to secure all items which may come due under the lease.
- 1.14 **The University makes no representations, warranties, or conditions, either express or implied, including, without limitation, warranties of title to the Property or to oil and gas,**

or any other minerals; regarding the presence, quality or quantity of oil and gas on the Property; the physical condition of the Property; or merchantability, or fitness for a particular purpose, and the University expressly disclaims any such warranties, representations, or condition.

## **2.0 INSTRUCTIONS**

2.01 Proposals will be received until **2:00 p.m. ET on March 9, 2009.**

Proposals received after this time and date will be rejected and not considered for lease award. Proposals may be delivered in person, by United States mail, or other couriers. **Facsimile and electronically transmitted (e-mail) proposals are not acceptable.** It is the proposer's responsibility to ensure that its proposal is mailed or delivered in sufficient time to arrive at the University's Office of Real Estate Administration by the submission deadline. Proposals must be submitted in an envelope or package and plainly marked in the lower left-hand corner **"Proposal for Oil and Gas Lease, Due March 9, 2009 at 2:00 p.m. ET"** (The envelope or package must contain two (2) sealed envelopes. One sealed envelope must contain the "revenue proposal" (Sections 2.03.1 and 2.02 – Attachment B). The other sealed envelope must contain the "technical proposal" (Sections 2.03.2, 2.03.3 and 2.03.4). Each sealed envelope must be clearly marked as to its

contents.) Proposals should be addressed to the Office of Real Estate Administration, University of Tennessee, 1331 Circle Park, 711 Andy Holt Tower, Knoxville, TN 37996-0174. **Proposals from lease brokers will not be considered.**

2.02 Each proposer's response to this RFP must include the Request for Proposals Response Form (hereafter the "Response Form") that is attached hereto as Attachment B. Failure to submit the Response Form, failure to provide, include, or to complete fully all of the information requested in the Response Form, or failure to sign the Response Form may result in the rejection of proposer's response to the RFP. The "Response Form" must be included in the sealed envelope clearly marked "revenue proposal."

2.03 Proposer's response to the RFP must provide the following data and information:

2.03.1 Revenue to the University (35 points)

2.03.1.1 Percentage royalty rate: (65%)

**The minimum acceptable royalty rate is 15% of that produced and saved from the Property; the same to be delivered at the wells or to the credit of**

Lessor into pipelines to which the wells may be connected, or in the absence of such pipelines, into tank cars or other carriers. Unless Lessor opts to receive royalty in kind, Lessee shall purchase said leased minerals delivered as royalty to Lessor or to Lessor's credit, paying to Lessor the market value at the well. **Proposals offering less than the minimum royalty rate will not be considered.** For the purpose of this RFP and the lease, royalty shall be calculated on the gross amount realized from the sale of quantities of oil and gas, and processed liquids without deduction of any post-production costs or expenses of any kind whatsoever from the wellhead downstream including but not limited to, interest, depreciation, depletion, capital expenses, pipelines, treatment, dehydration, water disposal, separation, processing, recycling, compression, transportation or any other cost to make the oil and gas marketable or merchantable. There shall be no deduction for taxes, including severance taxes (except those not expressly waived by the appropriate taxing authority), which are levied by

Federal, State, and Local governmental entities that Lessee is required to pay.

2.03.1.2 Lease bonus (5%)

**The minimum lease bonus is \$300,000. This will not constitute a paid-up lease. Proposals offering less than the minimum acceptable lease bonus of \$300,000 will not be considered.**

2.03.1.3 Annual rental payment per acre. (15%)

**The minimum annual rental is \$35.00 per acre. Proposals offering less than the minimum of \$35.00 per acre will not be considered.** For each year this Lease is in force and effect, Lessee shall pay Lessor, in advance, an annual per acre minimum rental of \$35.00 for each acre then covered by this Lease, unless a greater annual per acre rental is proposed. Rental payments shall be due on or before each anniversary of the effective date of this Lease during its term. Provided, however, that any royalties paid from producing wells during the preceding twelve (12) month

period for which royalties have been paid shall be credited toward the annual rental.

**2.03.1.4 Minimum number of wells that will be drilled each year. (15%)**

During the primary term of this Lease, Lessee shall drill a minimum of one (1) horizontal well per year on the Leased Premises. Within the primary term of the lease, Lessee shall drill a minimum of one vertical well as a basement test. Lessee shall share the results of the drilling data with the Lessor. Continuous annual development will be required to keep the lease in effect after the primary term. In successive years after the primary term, Lessee shall drill a minimum of one (1) horizontal well per year to the depth of a formation yielding Oil and/or Gas in paying quantities or to a minimum depth equal to the depth of the deepest well previously drilled on the Leased Premises.

**2.03.2 Operational capability and capacity (35 points)**

**2.03.2.1 Access to market(s): (40%)**

The University must be assured that oil and gas produced from the Property can be delivered to a willing purchaser(s) in a timely manner. To this end, Proposer must submit a description of plans for marketing oil and gas produced from the Property. The description must identify intended purchaser(s) and Proposer's capacity to deliver product via its own pipeline or its contracted access to transport facilities owned by others.

**2.03.2.2 Ability and capacity to drill both vertically and horizontally and produce oil and gas: (30%)**

Proposer must submit detailed information that demonstrates production experience in the Appalachian Basin and its present ability and capacity to drill and produce oil and gas that may be located on the Property. Appropriate information includes anything that bears on Proposer's ability to produce the property effectively, including completions in multiple zones, horizontal drilling and multiple completions. Proposers must also demonstrate capability to

comply with state well spacing requirements that promote the maximum number of allowed wells, protect co-equal and correlative rights and prevent drainage. Proposer must also demonstrate current daily production experience involving a minimum of 50 gas wells and production of 2,000 Mcf per day.

**2.03.2.3 Security (15%)**

The Proposer must demonstrate an understanding of and the ability to adhere to emerging industry security standards for protection of people, equipment, real estate, and natural resources in any way associated with its operations on the Property.

**2.03.2.4 Maintenance (15%)**

The University must be assured of the Proposer's ability to maintain all operational sites on the Property in accordance with the most rigorous industry standards and in compliance with all applicable local, state, and federal regulations. The proposer should submit information bearing

upon its ability and capacity for accomplishing exemplary operational maintenance it considers appropriate and applicable.

**2.03.3 Ability and capacity for accomplishing minimum negative environmental impact. (15 points)**

**2.03.3.1 Drilling and production practices: (40%)**

Proposer must describe the basic drilling and production practices to be implemented. The description should include, but not necessarily be limited to, such details as the type(s) of any drilling fluid to be utilized, number of wells to be drilled and/or completed from a drilling site, size of a drilling and/or production site, nature and degree of development necessary at drilling and/or production sites, etc. Proposer must indicate history of any environmental citations (Environmental Protection Agency (EPA), etc.) and production violations/citations (Tennessee Department of Environment and Conservation (TDEC), etc.) The Proposer must indicate

willingness to provide access to the operations on the Leased Premises for educational purposes.

**2.03.3.2 Off-site transport control: (30%)**

Proposer should describe procedures and practices to be employed for containing drilling and production fluids on site.

**2.03.3.3 Storm runoff and erosion control: (15%)**

Proposer should describe practices to be employed to control storm runoff and prevent erosion from all areas where soil is disturbed.

**2.03.3.4 Environmental stewardship record: (15%)**

The University needs to be assured of the Proposer's commitment to environmental stewardship. To this end, Proposer is requested to report the number and nature of all citations (EPA, TDEC, etc.) received during the past five years for environmental contamination and/or violation of environmental regulations. Likewise, reports of any commendations received for

exemplary environmental-protection practices are requested.

**2.03.4 Proposer viability (15 Points)**

**2.03.4.1 Corporate maturity: (30%)**

Proposer must provide a profile of its history, background, and experience in the oil and gas industry.

**2.03.4.2 Financial statements: (30%)**

Proposer must document access to adequate financial resources to operate, maintain, and support the operations as specified by this request for proposals. Proposer shall provide the most recent year's audited financial statements and most recent three (3) years' signed and dated Federal Income Tax Returns.

**2.03.4.3 Corporate structure: (10%)**

Proposer must document existence of adequate corporate resources (e.g., managerial, engineering, operational, etc.) to plan, implement,

and manage the development and marketing of the oil and gas resources on the Property on an ongoing basis.

**2.03.4.4 Human resources: (10%)**

Proposer must provide an organizational chart reflecting all key owners, officers and employees and their titles.

**2.03.4.5 References: (20%)**

Proposer must provide a letter(s) of good standing from a reputable bank. Additionally, names and contact information (addresses and telephone numbers) of at least three (3) industry-related customer references must be provided.

**2.04** Each proposal must be accompanied by a proposal binder in the form of a certified or cashier's check in the amount of the lease bonus (see 2.03.1.2) offered by proposer (to be included in the sealed envelope marked "revenue proposal"). If the University accepts the proposer's proposal and enters into a lease agreement with the proposer, the bid binder shall be applied to the bonus payment requirements of the lease. If the successful proposer fails

to or refuses to enter into the oil and gas lease within the time allowed, then proposer's binder shall be forfeited and the University shall be entitled to retain it. The checks of unsuccessful proposers shall be returned promptly after the successful proposal is selected by the University.

- 2.05 Questions concerning the RFP must be submitted in writing on or before **February 27, 2009**, to the Office of Real Estate Administration, University of Tennessee, 1331 Circle Park, 711 Andy Holt Tower, Knoxville, TN 37996-0174.

### **3.0 PROPOSAL EVALUATION AND AWARD**

- 3.01 This RFP does not commit the University to award a lease for oil and gas or to pay any costs incurred by any proposer in preparation of a proposal.
- 3.02 The award made shall be in the best interests of the University, as determined solely by the University to the best evaluated proposal. The University reserves the right to accept or reject any and all proposals, to waive any informalities in a proposal, and, unless otherwise specified in writing by the proposer, to accept any items in the proposal. The University may require oral presentation of

one or more proposers for the purposes of discussion or clarification. The award document will be the University of Tennessee's oil and gas lease form that will incorporate the terms and conditions of the successful proposer's proposal as negotiated. A copy of the lease form with blank spaces where proposer-provided information will be inserted is included herein as Attachment A. Only proposals from financially responsible organizations, as determined by the University, presently engaged in the oil and gas production business shall be considered. Representatives of the University reserve the right to inspect the proposer's current operations and to contact references prior to lease award.

3.03 While the potential for revenue to the University is an important factor in the selection of the successful proposal, the University has additional objectives and concerns that will also be factored into the decision process, before revenue is considered. As suggested by the requested information identified in section 2.03 above, in addition to revenue, the successful proposer must demonstrate that its business entity meets operational criteria and environmental criteria and is organizationally and financially viable so that its proposal will fulfill the objectives of the University's educational mission. Specific information identified above in sections 2.03.1

through 2.03.4 is being requested for each proposal so that an assessment of each proposal may be made.

A scoring process will be utilized to evaluate the supplied information and rank proposals. The scoring process will weight each major category according to its assigned value, with the sum of the weight values totaling 100 points. Categories and sub-categories will be valued as indicated above. The University will evaluate and score each valid proposal. Proposals will be scored based on the evaluation of submitted information as it relates to the objectives specified in each category. Scoring guidelines will be utilized as illustrated in the following example:

- 1.0 = Excellent in meeting the objective.
- 0.5 = Met the objective to some degree.
- 0.0 = Failed to meet the objective.

A category-by-category evaluation of each proposal will be made. The scores in each category will be totaled to arrive at a score for each proposal. A scoring scenario for proposer viability is illustrated in Table A. All other criteria will be scored in a similar manner.

Category	Proposal 1		Proposal 2		Proposal 3	
	Raw Score	Weighted Score	Raw Score	Weighted Score	Raw Score	Weighted Score
Proposer Viability: (15)						
.30 Corporate Maturity	1	= .30	1	= .30	1	= .30
.30 Financial Statements	0.5	= .15	1	= .30	1	= .30
.10 Corporate Structure	0	= .00	1	= .10	1	= .10
.10 Human Resources	0	= .00	1	= .10	1	= .10
.20 References	0.5	= .10	1	= .20	0.5	= .10
Total Weighted Value		.55		1.00		.90
Points		<b>8.25</b>		<b>15.00</b>		<b>13.50</b>
Weighted Score x 15						

The points for a proposal in the non-revenue categories will be the sum of the points earned for each of the three (3) non-revenue categories.

The highest possible points on this portion are 65. An example is shown in Table B.

Category	Points	Proposer 1	Proposer 2	Proposer 3
Operational Capability & Capacity	35	26.25	132.20	29.05
Environmental Impact Potential	15	11.30	9.40	14.00
Proposer Viability	15	8.25	15.00	13.50
<b>Total Points</b>	<b>65</b>	<b>45.80</b>	<b>56.60</b>	<b>56.55</b>

In this example, Proposer 2 has the highest score, with Proposer 3 running a close second. At this point, revenue has not been considered and still remains in a sealed envelope; the proposers' offerings to first fulfill Operational Capability & Capacity, Environmental Impact Potential and Proposer Viability, within the RFP have been evaluated. Now, a sealed envelope containing revenue proposed to the University will be opened and scored if the technical proposal is responsive.

Since two proposals in this example are within minimal points of each other, revenue becomes a critical factor, especially if Proposer 3 submitted the highest revenue proposal. The evaluation shall encompass all criteria, including revenue.

The following example illustrates the calculation of points awarded for revenue (see Table C below).

The proposal with the highest offer in each portion of the Revenue category will be awarded the maximum points for that portion of the category (i.e., royalty (.65 x 35), lease bonus (.05 x 35), annual rental per acre (.15 x 35) and minimum number of wells (.15 x 35).) Each subsequent proposal will be awarded a percentage of the points based on its ratio to the highest offer in each portion of the Revenue category.

In this example Proposer 1 offered a 25% royalty, Proposer 2 offered a 15% royalty and Proposer 3 offered a 20% royalty.

Proposer 1 offered the highest royalty (25%) and will be awarded the maximum royalty points, calculated as follows:

$$\text{Proportion } 25 \div 25 = 1.0$$

$$\text{Percent of category } 1.0 \times .65 = .65$$

$$\text{Royalty points } .65 \times 35 = 22.75$$

Proposer 2 offered a 15% royalty and will be awarded proportionate points based on the ratio to the highest offer (25%)

$$\text{Proportion is } 15 \div 25 = .60$$

$$\text{Percent of category } .60 \times .65 = .39$$

$$\text{Royalty points } .39 \times 35 = 13.65$$

Proposer 3 offered a 20% royalty and will be awarded proportionate points based on the ratio to the highest offer (25%)

$$\text{Proportion is } 20 \div 25 = .80$$

$$\text{Percent of category } .80 \times .65 = .52$$

$$\text{Royalty points } .52 \times 35 = 18.20$$

Each proposer offered minimums for lease bonus, annual rental per acre and minimum number of wells; thus each proposer receives the maximum number of points for those portions of the category.

Total revenue points in this example would then be as shown in Table C.

<b>Table C: RFP Scoring: Revenue Example (total 35 pts.)</b>				
Category	Portion of Category	Proposer 1	Proposer 2	Proposer 3
Royalty	.65	22.75	13.65	18.20
Lease Bonus	.05	1.75	1.75	1.75
Annual Rental Per Acre	.15	5.25	5.25	5.25
Min. Number of Wells	.15	5.25	5.25	5.25
<b>Total Revenue Score</b>	<b>100</b>	<b>35.00</b>	<b>25.90</b>	<b>30.45</b>

The following table (Table D) totals the categorical points illustrated in Table B and the revenue points illustrated in Table C to arrive at total points awarded.

<b>Table D: RFP Scoring: Total Points Example:</b>				
Category	Total Points	Proposer 1	Proposer 2	Proposer 3
Total Categorical Points	65	45.80	56.60	56.55
Revenue Points	35	35.00	25.90	30.45
<b>Total Points</b>	<b>100</b>	<b>80.80</b>	<b>82.50</b>	<b>87.00</b>

In Table D, Proposer 3 achieved the highest total points, notwithstanding not having the highest revenue or the highest categorical points. In this example, Proposer 3 would be selected, based on the highest weighted points developed in the manner

illustrated to inform the decision process for selecting the proposal that best serves the interest of the University.

3.04 All responses become a matter of public record after the evaluation is completed. The University accepts no responsibility for maintaining the confidentiality of any information submitted in a response to the RFP, whether labeled as confidential or not.

3.05 The University of Tennessee reserves the right to reject any and all bids.

**ATTACHMENT A**

**Oil and Gas Lease**

**ATTACHMENT B**

**UNIVERSITY OF TENNESSEE OIL AND GAS LEASE**

**REQUEST FOR PROPOSALS RESPONSE FORM**

In compliance with this Request for Proposals, the undersigned acknowledges that he/she has read and understands all of the conditions imposed herein and offers and agrees to perform in accordance with the attached proposal or as mutually agreed upon by subsequent negotiation. The undersigned represents that he/she is authorized to submit the foregoing proposal on behalf of the proposer's company or business entity and to offer the terms and provisions described therein.

Entity:

\_\_\_\_\_

Address:

\_\_\_\_\_

City: \_\_\_\_\_ State: \_\_\_\_\_ Zip Code: \_\_\_\_\_

Telephone: \_\_\_\_\_ Contact Person: \_\_\_\_\_

State Tax I.D. Number: \_\_\_\_\_

Federal Tax I.D. Number: \_\_\_\_\_

**FOR EACH REVENUE ITEM LISTED BELOW PROVIDE THE INFORMATION REQUESTED:**

**1. ROYALTY RATE (See Section 2.03.1.1 of the RFP Specifications).**

Proposer agrees to pay the following royalty rate: \_\_\_\_\_

**(NOTE: Minimum acceptable royalty rate is 15%).**

**2. LEASE BONUS: (See Section 2.03.1.2 of the RFP Specifications).**

Proposer agrees to pay a lease bonus of \$ \_\_\_\_\_.

**(NOTE: The minimum acceptable lease bonus is \$300,000).**

**3. Annual Rent: (See Section 2.03.1.3 of the RFP Specifications).**

Proposer agrees to pay annual rent that will be offset by royalty payments at the rate of \$ \_\_\_\_\_ Per Acre

**(Note: The minimum acceptable annual rental rate is \$35.00 per acre.)**

**4. Minimum Number Of Wells To Be Drilled: (See Section 2.03.1.4 of the RFP Specifications)**

Proposer agrees to drill at least \_\_\_\_\_ wells per year during the primary term of the lease. (Note: indicate number of conventional and horizontal wells.)

Proposer agrees to continually develop the Property by drilling at least \_\_\_\_\_ wells per year in years subsequent to the primary term of the lease. (Note: indicate number of conventional and horizontal wells.)

**RESPONSES TO THE REQUEST FOR PROPOSAL MUST BE RECEIVED BY OFFICE OF REAL ESTATE ADMINISTRATION, UNIVERSITY OF TENNESSEE, 1331 CIRCLE PARK, 711 ANDY HOLT TOWER, KNOXVILLE, TN 37996-0174 ON OR BEFORE 2:00 p.m. ET on March 9, 2009.**

**RESPONSES RECEIVED AFTER THE SUBMISSION DEADLINE WILL NOT BE CONSIDERED.**

Entity: \_\_\_\_\_

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Name Printed: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

**Note: This form – Attachment B – must be included in the sealed envelope clearly marked “revenue proposal.”**

**Note: Requested technical information as described in Sections 2.03.2, 2.03.3, and 2.03.4 of the RFP Specifications must be included in a separate sealed envelope clearly marked “technical proposal.”**

Instrument Prepared By:

**RFP - ATTACHMENT A**

The University of Tennessee  
Office of Real Estate Administration  
1331 Circle Park  
711 Andy Holt Tower  
Knoxville, TN 37996-0174

OIL AND GAS LEASE

THIS OIL AND GAS LEASE, sometimes hereinafter referred to as "Agreement" or "Lease", is effective as of the \_\_\_\_\_ day of \_\_\_\_\_, 200\_, by and between The University of Tennessee, an arm or agency of the State of Tennessee having its principal office in Knoxville, Knox County, Tennessee hereinafter referred to as "University " or "Lessor", and \_\_\_\_\_, a \_\_\_\_\_, with an office at \_\_\_\_\_, hereinafter referred to as "Lessee".

WITNESSETH:

WHEREAS, by Lease Agreement dated August 28, 1991, a Memorandum of which is recorded on May 12, 1992 in Oil and Gas Lease Book 38, Page 24 in the office of the Register, Morgan County, Tennessee, hereinafter referred to as "1991 Lease," The University of Tennessee, leased land located in Morgan County, Tennessee, to American Gas Technologies, Inc., as Lessee, and, furthermore, being the same by Assignment effective May 29, 1992, and recorded in Book M, Volume 49, Page 414, Oil & Gas Lease Book 38, page 75 in the Office of the Register, Morgan County, Tennessee, American Gas Technologies transferred and assigned its interest in and to the 1991 Lease to Tennessee Energy Pipeline & Storage Company, Canonic Energy, Inc., WGI, Inc., Coal Creek Mining and Manufacturing Company, American Resource Management, Inc., and American Energy Exploration, Inc.

Being further assigned the same by Assignment effective April 1, 2005, and recorded in Record Book 49, Pages 386-392 in the Office of the Register, Morgan County, Tennessee, Canonie Energy transferred and assigned its interest in and to the 1991 Lease to East Tennessee Consultants, Inc.

Being further assigned the same by Assignment effective February 9, 2006, and recorded in Record Book 68, Pages 449-452 in the Office of the Register, Morgan County, Tennessee, East Tennessee Consultants, Inc transferred and assigned its interest in and to the 1991 Lease to Ariana Energy, LLC,

Being further assigned the same by Assignment of an unrecorded instrument between Ariana Energy, LLC East transferred and assigned its interest in and to the 1991 Lease to Vinland Energy, Inc.

WHEREAS, the parties hereto wish to enter into this Oil and Gas Lease to cover the Leased Premises described hereinafter, less and except the 1991 Lease described above.

NOW THEREFORE, that, for and in consideration of the sum of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt of which is hereby acknowledged, and of the covenants and agreements on the part of the Lessee to be kept and performed, and upon the conditions, limitations, exceptions and reservations hereinafter contained, for the period of time hereinafter provided and the royalties and rentals herein provided to be paid, Lessor does hereby grant, demise, lease, and let unto Lessee, those certain tracts of land (hereinafter described and referred to as the "Leased Premises"), for the sole and only purpose of exploring, drilling (either vertically and/or horizontally), producing, and removing oil and/or gas (and other hydrocarbons, including coal bed methane) from the Leased Premises, (hereinafter collectively called "Oil and Gas"), along with the right to construct drips, place tanks, and build stations and houses for gates, meters and regulators thereon, and for conducting geological and geophysical surveys, together with all necessary rights-of-way for ingress and egress to, from, over and across the Leased Premises for roads, electric power lines, and all such other rights and privileges

necessary for and incident to the economic operation of the Leased Premises for Oil and Gas, together with the right to transport over said lands Oil and Gas produced from the Leased Premises including the right-of-way and easement to lay, construct, use, maintain, operate, change, replace, and remove gathering lines for such transportation; and together with the right to use with economy as hereinafter provided, oil, gas, and water (except water from wells of Lessor, its tenants or its other Lessees) from the Leased Premises free of cost to Lessee for all such purposes; and the right, during the term of, or within thirty (30) days after the expiration of, this Lease, to remove, if not in default hereunder, any and all property, including the right to draw and remove all casing, and improvements which Lessee may place or erect upon the Leased Premises, all, however, subject to the terms and provisions of this Lease and all prior conveyances and encumbrances of record.

Lessor hereby excepts and reserves unto itself the entire ownership and control of the Leased Premises and all rights incident thereto not expressly conveyed by this Lease, including but not limited to the entire interest and control in all surface, coal, timber, other minerals and all other products and substances naturally occurring therein and thereon. It is distinctly understood and agreed by and between the parties hereto that the rights and privileges herein granted are and shall be construed as limited to such rights and privileges only as Lessor as owner or grantee, possesses and has the lawful right to grant.

#### DESCRIPTION OF LANDS

The lands covered hereby are situated in Morgan and Scott Counties, Tennessee and are more particularly described on Exhibits A and B (plat) each of which exhibits are attached hereto and made a part hereof (the "Leased Premises"). For the purpose of calculating money payments under this Lease that are to be computed on an acreage basis, the Leased Premises shall be deemed to comprise Eight thousand six hundred (8,600) acres, whether actually more or less.

In consideration whereof, Lessor and Lessee mutually agree and covenant as follows:

1. TERM

Subject to the further provisions hereof, this Lease shall be and remain in force for a minimum term of five (5) years from the effective date hereof (hereinafter called "primary term"). Provisions are hereinafter provided for maintaining the lease in force for some or all of the Leased Premises as long as Oil and Gas is produced in paying quantities from the Leased Premises. The lease may be maintained in force after the primary term for three (3) renewal periods of five (5) years each with payment of the required per acre minimum annual rental. However, notwithstanding anything herein to the contrary, after twenty (20) years from the effective date hereof, this lease shall remain in effect only for such portions of the property as are held by Oil and Gas production in paying quantities as hereinafter provided.

Provided, however, upon the expiration or termination of this Lease or in the event Lessee fails to fulfill its commitment under the continuous development provision in Paragraph 2 below, whichever first occurs, Lessee shall retain, subject to the terms of this Lease, only those rights granted herein as cover those depths from the surface of the earth down to twenty-five (25) feet below the depth of the deepest producing well drilled by Lessee (as determined by electric log measurement) together with only that portion of the Leased Premises included in the production unit for each producing well ("hereinafter sometimes referred to as "Retained Acreage"). At such time, Lessee shall promptly file an appropriate recordable release in the public records in favor of Lessor of all other rights granted hereby not permitted to be retained hereunder for the continued production and maintenance of such well or wells upon surrender.

Thereafter, this Lease shall terminate as to each well and its associated unit acreage at such time that the particular well ceases to produce oil and gas in paying quantities.

For the purposes of this Lease, the size of a drilling or production unit for any wells drilled shall be dictated by the State of Tennessee's minimum spacing or distance requirements set forth in the appropriate statutes, regulations or orders governing oil and gas production and development. Well units shall be configured in a square with the well being located in the center thereof.

2. CONTINUOUS DEVELOPMENT

Within the primary term of this Lease, Lessee shall drill a minimum of one (1) horizontal well per year on the Leased Premises. During the primary term of the lease, Lessee shall drill a minimum of one vertical well as a basement test. Lessee shall share the results of the drilling data with the Lessor. In successive years thereafter, Lessee shall drill a minimum of one (1) horizontal well per year to the depth of a formation yielding Oil and/or Gas in paying quantities or to a minimum depth equal to the depth of the deepest well previously drilled on the Leased Premises. Where Lessee utilizes pooling with other land in the vicinity, drilling requirements will be attributable to that portion of the pooled unit owned by Lessor. If Lessee shall drill more than the minimum number of wells required to be drilled in any one year, the number of any such wells in excess of the minimum number for any such year shall not reduce the minimum number of wells required to be drilled by Lessee in any subsequent year. If Lessee does not meet the requirements of this paragraph, Lessor may terminate this agreement upon written notice to Lessee.

3. BOND OR SECURITY DEPOSIT

Lessee will post a security deposit in the amount of \$150,000 at execution of the lease. The security deposit may be in the form of an irrevocable stand-by sight letter of credit or a certificate of deposit payable to The University of Tennessee.

The security deposit , insofar as it is sufficient, shall apply to all monies due under this lease and to the performance of all terms and conditions within this lease; provided however, in the event said sum is insufficient to make the Lessor whole or otherwise fulfill the terms and conditions of this lease, this performance bond or security deposit shall not prevent the Lessor from pursuing any remedies available under this lease or any other provision of the laws of this or any other state or federal law or regulation in order to satisfy the terms and conditions of this lease. The term of the security shall be for the primary term plus any extensions. The security deposit will be released to Lessee upon satisfactory completion of the terms and conditions of the lease. Any interest earned on the security deposit will be due Lessee unless otherwise agreed by both parties in writing.

4. RENTALS

Lessee herein shall pay to Lessor a lease bonus payment of Three Hundred Thousand Dollars (\$300,000) for the primary term upon execution of this Lease. Additionally, for the primary term of this lease, Lessee shall pay Lessor, in advance, an annual minimum per acre rental of thirty-five dollars (\$35.00), or greater as agreed, for each acre covered by this Lease. For each year subsequent to the primary term while this Lease is in force and effect, Lessee shall pay Lessor, in advance, an annual rental of thirty-five dollars (\$35.00) per acre, or greater, as agreed, for each acre then covered by this Lease subject to the following stipulations:

Rental payments shall be due on or before each anniversary of the effective date of this Lease during its term. Lessee shall be released from making any rental payments on any acreage that has been surrendered voluntarily by Lessee; provided an appropriate release in recordable form has been furnished to Lessor covering such acreage. PROVIDED, however, that any royalties paid from producing wells during the preceding twelve (12) month period for which royalties have been paid shall be credited toward the annual

rental. If the royalties from said well(s) during the preceding twelve (12) month period do not equal or exceed the minimum annual rental, then the deficiency shall be paid to Lessor by Lessee within thirty (30) days of the expiration of the Lease term year. Production royalties from one Lease term year cannot be applied to the rental obligation of any succeeding year and the payment of such rental shall be in addition to and not in lieu of Lessee's obligation to drill the wells required to be drilled each year under this Lease.

5. ROYALTY

A. CALCULATION

Lessee agrees to pay or deliver to the credit of Lessor, its successors or assigns, as royalty, in the pipeline or other transportation facility to which Lessee may connect its wells, a royalty of fifteen percent (15%), or greater, as agreed, of the gross proceeds received by Lessee from the sale of Oil and Gas and processed gas liquids attributable to the Leased Premises, free from any and all costs and expenses whatsoever including, but not limited to, all expenses incurred in exploration, drilling and any other costs of production, and free of any and all costs incurred in producing, gathering, compressing, dehydrating, treating or transporting the gas and any other cost to make the Oil and Gas marketable or merchantable.

Gross proceeds received by Lessee shall mean the selling price received by Lessee as a result of an arms-length negotiation with a third party, not a subsidiary, parent or affiliate of Lessee. Should Lessee dispose of production from the Leased Premises in a transaction with a subsidiary, parent or affiliate of Lessee, then, unless Lessor's prior written consent has been obtained, Lessor's royalty shall be based upon the monthly index price posted by the New York

Mercantile Exchange (NYMEX) for gas produced in East Tennessee Zone #1, again free from any and all costs and expenses whatsoever.

It is understood and agreed that Lessor shall be entitled to receive the royalty set forth above on any and all payments Lessee is entitled to receive in connection with the Oil or Gas (or other products extracted there from) attributable to the Leased Premises including, but not limited to, any and all lump sum amounts such as Buy-Down, Buy-Out, Price Deficiency payments and any other payments or benefits received by Lessee resulting from sales contracts or the modification, amendment or termination thereof which cover or pertain to, in whole or in part, the Leased Premises.

B. LESSOR'S RIGHT TO TAKE ROYALTY SHARE IN KIND

Notwithstanding anything herein to the contrary, Lessor hereby reserves the right to take in kind at any time or from time to time its royalty share of Oil and Gas attributable to the Leased Premises. Lessor shall notify Lessee in writing at least thirty (30) days in advance of its election to take its share of Oil and Gas in kind. Lessor shall bear all costs incident to taking its share of gas in kind (such gas to be delivered at Lessor's election at the well head or at the point of delivery of Lessee pursuant to its gas sales contract) and Lessee shall be relieved of any liabilities associated with Lessor's exercising its option to take said gas in kind except that Lessor shall have the right to require Lessee to transport its gas, free of cost, to market. Lessee agrees that all gas sales contracts shall be made subject to Lessor's right to take in kind and/or separately market its royalty share of gas at any time.

Nothing in the above paragraph giving Lessor the right to take its royalty share of Oil and Gas in kind shall ever be construed as relieving Lessee of the obligation to handle, deliver, sell and pay for Lessor's proportionate royalty share of all Oil and Gas attributable to the Leased Premises in the event Lessor elects not to exercise such right.

C. PROPORTIONATE REDUCTION - LESS THAN FULL OWNERSHIP BY LESSOR

Should Lessor own less than all of the Oil and Gas in any portion of the Leased Premises, the royalties attributable to that portion in which Lessor does not own all of such rights shall be paid to Lessor only in proportion to Lessor's interest in such rights in such portion.

D. FREE USE OF OIL AND GAS BY LESSEE

Lessee shall have the right to use with economy, free of cost to Lessee, Oil and Gas produced hereunder for fuel for drilling and reworking operations on the Leased Premises provided that Lessee maintains accurate records of such usage. Lessee shall pay royalty based on the then current market value of any and all Oil and Gas used (and not sold) by it for any other purpose or if used (and not sold) by it off the Leased Premises.

E. PRODUCTION REPORTING

The Lessee shall furnish to the Lessor a prompt report of each and every sale of Oil and Gas attributable to the Leased Premises; said reports shall be made monthly, along with royalty payments, showing the amount of Oil and Gas sold during the production month from which said royalty is derived, measured as provided below, and shall pay to Lessor the royalty on said Oil and Gas as

provided above. Lessee shall keep books of account of the Oil and Gas produced and sold from the Leased Premises, which books shall be available upon reasonable request, during normal business hours for the inspection of Lessor, its agents or attorneys, for the purpose of comparing and verifying the reports so made.

F. GAS MEASUREMENT

All gas produced from each well located on the Leased Premises, before being used or sold shall be measured by a meter located at the well, thereafter Lessee may install meters at convenient points, as may be hereafter determined by the Lessee. However, Lessor's royalty shall be determined based on production as measured by the meter at the well. All said meters shall be of a modern standard type, properly adapted for the volumes to be handled, and shall be furnished, connected to the wells, maintained and operated by the Lessee, at its own expense. Lessee shall have sole charge of said meters, shall repair the same when it deems necessary or tests show inaccuracy. Lessor shall have access at all times to said meters, and Lessee shall provide to Lessor on a monthly basis copies of all meter charts or other media documenting quantity of gas flowing through said meters. In case Lessor challenges the accuracy of any meter in use, Lessee shall, upon receipt of written notice from Lessor, have the same tested and a report of the results given to Lessor, and Lessor shall have the right to have its own representative present at the making of such test. Should tests disclose the meter to be less than 2% slow or fast, but not otherwise, Lessor shall pay the cost of testing said meter. In all other cases, the cost of testing shall be borne by Lessee. Meter measurements found to be in error more than two percent (2%) shall be corrected and accounts adjusted accordingly, but the period of adjustment shall not exceed one-half (1/2) of the period elapsed since the last

test. Lessee agrees to test the meters in the field at such intervals as is considered good practice in the industry, or as a prudent operator would do under like circumstances. During such time as a meter or meters are out of repair, the gas may be delivered through a by-pass and the amounts estimated for a reasonable period of time. The unit of measurement for gas sold shall be that called for in the applicable third-party gas contract. For gas used, the unit of measurement shall be one thousand (1,000) cubic feet at a standard temperature of sixty (60) degrees Fahrenheit at a pressure of ten (10) ounces above an atmospheric pressure of fourteen and seven tenths (14.7) pounds, according to the methods of computation contained in Report No. 3 of the Gas Measurement Committee of the American Gas Association, including any revisions thereof, applied in a practical manner.

G. SHUT-IN ROYALTY

If Lessee completes a well on the Leased Premises which is capable of producing Gas and/or Oil and Lessee is unable to produce such well because there is not a regularly available market for the Gas and/or Oil, and this Lease is not being otherwise maintained in full force and effect, Lessee may maintain this Lease in force as to that particular well and its associated unit, but not for a period in excess of two (2) years beyond the completion of such well by paying as royalty to parties entitled to royalties, either on or before the expiration of ninety (90) days from the date of completion of such Gas and/or Oil well or from the date such Gas and/or Oil ceases to be sold for lack of such market, a sum equal to five hundred dollars (\$500.00) for each such well, which payment will maintain this Lease in full force and effect as to such well for a period of three (3) months from the expiration of said ninety (90) day period. In like manner and upon like payments, quarterly, on or before the expiration of the last preceding quarter for

which such payment has been made, this Lease may be maintained in force and effect as to such well for successive periods of three (3) months each (but not for a period in excess of two (2) years beyond the primary term hereof or beyond the completion of such well, which ever is later) until such time as a regularly available market for such Gas and/or Oil exists.

6. PAYMENTS

A. ADDRESS FOR PAYMENT

Payment or tender of all rents, royalties or other moneys due Lessor under this Lease shall be made promptly by Lessee to Lessor without demand for same, at the following address:

Office of the Treasurer  
University of Tennessee  
301 Andy Holt Tower  
Knoxville, TN 37996-0100

or other such address as Lessor may from time to time in writing direct. All payments to Lessor under this Lease may be made by electronic transfer or by check, mailed or tendered to Lessor as herein above provided. It is understood and agreed that the execution by Lessor, its successors or assigns, of any Transfer Order, Division Order or other document not required by law or the express terms of this Lease shall never be a condition precedent to Lessor receiving its rental, royalty or other payments hereunder.

B. WHEN ROYALTIES ARE TO BE PAID

Royalties shall be paid monthly and shall be due and payable on or before the 25th day of the month following the month of production.

C. TRANSFER OF RIGHTS BY LESSOR

In the event this Lease, or any part hereof or any rights hereunder, shall be transferred by Lessor, its representatives, successors or assigns, Lessor covenants with Lessee, its successors and assigns, to furnish a copy of the recorded instrument by which said transfer was effected, together with the post office address of such transferee; and until such covenant shall be strictly complied with, all rental or royalty then or thereafter falling due may be withheld without rendering liable or prejudicing the rights hereunder of Lessee, its successors or assigns.

D. INTEREST ON OVERDUE PAYMENTS

Lessee shall pay interest at a rate equal to prime as published in the *Wall Street Journal* on the date payment is due plus four percent (4%) from the date payments are due on all royalties, rentals and other fees required to be paid to Lessor by this Lease and which are overdue. The daily rate of interest that shall be applied to overdue payments shall be calculated by dividing the sum of the prime rate plus four percent (4%) by three hundred sixty (360) days. The charging and paying of such interest shall not abrogate the provisions hereof making late payment an event of default, nor shall it constitute a waiver of Lessor's right to future timely payment of any sums due.

E. LIENS

All payments and royalties hereunder required to be made by Lessee to Lessor shall be deemed and considered as rent reserved upon contract, and all remedies now or hereafter given by the laws of the State of Tennessee for the collection of rent are reserved to Lessor in respect to the sums so retained or payable, and a lien is hereby reserved and imposed upon all the personal property of Lessee at

any time acquired for use in connection with Lessee's operations on the Leased Premises and remaining thereon or having been removed no more than thirty (30) days previously to the time of any default under this Lease, as well as upon this Lease and the leasehold estate hereby created, to secure the payment of any and all sums.

F. DEFAULT IN PAYMENT

If default be made in the payment of any rents or royalties and shall continue for a period of thirty (30) days after the same become due, then in such event, Lessor may, at its option, give Lessee thirty (30) days written notice of its intent to terminate this Lease, and if, at the expiration of said thirty (30) days notice, Lessee still remains in default, Lessor may without further notice reenter upon and take possession of the Leased Premises and every part thereof and hold and possess the same in like manner as if this Lease had never been made; and said Lessor in making said reentry and taking possession of said property, shall have the right to do so without the service of a declaration of ejectment upon the Lessee or tenant in possession, except that such action shall in no way impair Lessor's right to rents or royalties up to the time of such reentry, and Lessor may accelerate any and all unpaid rent or royalties and declare the same immediately due and payable.

If Lessee shall fail to perform or observe any of the terms, provisions, conditions, covenants, stipulations and agreements herein contained to be performed or observed by Lessee (other than the failure to make payment to Lessor), specifically including, without limitation, failure to pay taxes and insurance premiums for required coverage; failure to submit adequate and proper operating, production and sales records; failure to drill a required offset well; pooling

without Lessor's prior written consent; failure to give notice of proposed well locations; attempting to transfer, encumber, sublease or assign this Lease without Lessor's prior written consent; failure to comply with federal, state and local laws, orders, rules and regulations governing Lessee's operations; and failure to conduct operations in a reasonable, prudent and workmanlike manner, and such failure continues for a period of thirty (30) days after Lessor has given written notice of default to Lessee, Lessor may, at its option, declare this Lease forfeited and terminate this Lease. Lessor may without further notice re-enter upon and take possession of the Leased Premises and every part thereof and hold and possess the same in like manner as if this Lease had never been made; and Lessor in making said reentry and taking possession of the Leased Premises, shall have the right to do so without the service of a writ of ejectment or detinue upon the Lessee or tenant in possession, except that such action shall in no way impair Lessor's right to (1) receive rents or royalties up to the time of such reentry, and Lessor may accelerate any and all unpaid rent or royalties or declare the same immediately due and payable or (2) pursue any and all other remedies available under the laws of the State of Tennessee for violation of any terms, provisions, conditions or covenants.

All of the foregoing powers of reentry, and all other provisions for enforcement of the rights of Lessor are remedies cumulative to one another and to all other remedies, suits, actions and proceeding at law or in equity to which Lessor may be entitled and which Lessor may choose to exercise.

7. OFFSET WELLS

In the event a well or wells producing oil or gas in paying quantities should be brought in on adjacent lands and situated such that it could drain reserves from the Leased Premises,

Lessee agrees to drill such offset wells as a reasonably prudent operator would drill under the same or similar circumstances. If Lessee shall refuse to drill an offset well(s) at Lessor's request, Lessor may, in addition to all other remedies to which it may be entitled, require Lessee to release so much acreage under this Lease as is necessary to allow Lessee or its agents to drill the offset well(s). In addition, Lessor shall allow Lessee or its agent to connect to and utilize its pipeline or other transportation system or methods for the purpose of transporting oil and gas produced from any such offset well(s) to market.

8. FREE GAS FOR LESSOR

In addition to Lessor's right to take its royalty share of Oil and Gas in kind, Lessor may lay a line to any well producing gas on the Leased Premises or to Lessee's pipeline leading from any such well for Lessor's use only. This privilege is upon condition that the Lessor shall use said gas with economy in safe and proper pipes and appliances, and shall subscribe to and be bound by the reasonable rules and regulations of the State of Tennessee relating to such use of gas.

9. POOLING AND UNITIZATION

A. It is understood and agreed that Lessee shall have the right, subject to written consent of Lessor, which consent shall not be unreasonably withheld, to pool or unitize all or any part or parts of the Leased Premises, or rights herein, with any other land in the vicinity thereof, or with any Leasehold, operating or other rights or interests in such other land to create pools or units. The royalty attributable to that portion of the pooled unit owned by Lessor shall be paid to Lessor in proportion to Lessor's acreage in the unit.

B. In the event a pool or unit is formed in accordance with the preceding paragraph, Lessee will earn and be relieved of paying rental on the proportionate amount of

the total acreage included in such pool or unit to which the Leased Premises contributes. Each pool or unit so formed shall be created by a written Declaration Notice, executed by Lessor and Lessee, containing a description of the unit so created. Any well, which is commenced, drilled, or producing on any part of any lands so pooled or unitized with the Leased Premises shall, except for the payment of royalties, be considered a well commenced, drilled, and producing on the Leased Premises. There shall be allocated to the Leased Premises included in such pool or unit, a proportionate amount of the actual production from all lands so pooled or unitized. Such proportionate amount shall be equal to the percentage the Leased Premises, computed on an acreage basis, bears to the entire acreage included in such pool or unit. The production so allocated shall be considered, for the purpose of payment of royalty, to be the entire production from the portion of the Leased Premises included in such pool or unit in the same manner as though produced from such portion under the terms of this Lease.

10. METHOD OF OPERATION

A. PRUDENT OPERATOR

It is understood and agreed that Lessee shall conduct its exploration, development, production, operating, marketing and all other activities under this Lease in a reasonable, prudent and workmanlike manner in accordance with the then current standards for such activities under all the circumstances then relevant. No express obligation imposed upon Lessee shall relieve it of any otherwise existing duty of exploration, development, production, operating or marketing of a reasonably prudent operator.

B. COMPLIANCE WITH LAWS. ETC.

Lessee shall comply with all federal, state and local laws, orders, rules and regulations applicable to its operations under this Lease and any breach thereof by or on behalf of Lessee shall be cause for termination of this Lease. All terms and express or implied covenants of this Lease shall be subject to all federal, state and local laws, orders, rules and regulations, and this Lease shall not be terminated, in whole or in part, nor Lessee held liable in damages, for failure to comply therewith, if compliance is prevented by, or if such failure is the result of, any such law, order, rule or regulation. Without limiting the foregoing, Lessee shall not allow any toxic, hazardous or contaminated substances or gases, including, but not limited to, raw materials which include hazardous constituents or any other similar substances or materials, that are included under or regulated by any local, state or federal law, rule or regulation pertaining to environmental regulations, contamination, clean-up or disclosure such as, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), Clean Air Act (42 U.S.C. §7401 *et seq.*, Clean Water Act (33 U.S.C. §1251 *et seq.*), Resource Conservation and Recovery Act (42 U.S.C. § 6901 *et seq.*) and Toxic Substances Control Act (42 U.S.C. §2601 *et seq.*) or state environmental clean-up or disclosure statutes as all such acts and statutes exist now or are hereafter amended (such acts and statutes referred to herein as "Environmental Laws") (such substances or gases referred to herein as "Hazardous Substances") to be stored, located, or discharged on the Leased Premises. Lessee shall comply with all Environmental Laws affecting the Leased Premises. Lessee covenants, at its cost, to hold Lessor harmless from and against any loss, cost, damage or expenses (including attorney's fees and

expenses) arising out of the presence of Hazardous Substances (as hereinabove described) on or about the premises or the violation of any Environmental Laws with respect thereto, the occurrence of which Hazardous Substances on the premises or the violation of any Environmental Laws shall have arisen solely from the acts or omissions of Lessee, its contractors, agents, invitees and employees. This indemnity shall survive the termination of this Lease and shall inure to the benefit of Lessor, its successors, and assigns.

C. LESSOR'S TIMBER OPERATIONS

Lessee agrees to conduct its operations upon the Leased Premises in such a way as to permit the practice of good principles of silviculture and not to unreasonably interfere with any timber operations for the development and marketing of timber which may now be on, or may be later conducted upon the Leased Premises. In addition, Lessor, its agents and contractors, shall have the right to use any roads, rights of way, undrilled or plugged and abandoned well pad locations or other improvements made to the Leased Premises for the purpose of timber management, harvesting and transportation, provided that Lessor shall maintain all such roads and other improvements so used and return them to the condition existing prior to the Lessor's use thereof. All merchantable timber cut by Lessee shall be stacked at a location and in a manner as to permit the Lessor to load and remove same and sell for the benefit of Lessor. Otherwise, Lessee shall compensate Lessor at a rate of \$1,800 per acre during the primary term hereof, and adjusted to market in any renewal periods, for merchantable timber (6 inches or greater in diameter at breast height) removed or destroyed by Lessee.

Lessee shall not light any fire on the Leased Premises for any reason other than those provided in the TDEC Rules and Regulations. Should fire originate on the Leased Premises as a sole, direct and proximate result of the actions or omissions of Lessee, its employees, agents, contractors or invitees, then in such event, Lessee shall be responsible for and shall pay to Lessor all actual loss, cost and damages to the Leased Premises suffered by Lessor.

D. LESSOR'S RESEARCH

Lessee agrees to take all necessary and reasonable steps to protect the integrity of the Lessor's research projects on said property and provide Lessor with plats identifying the location of well sites (including required lined protective pits, gathering lines, and physical facilities) and to check with the Director of the Forest Resources Research and Education Center prior to locating any physical facility, construction of access roads, location of well sites and all other land disturbance activities to minimize the impact upon the Lessor's research projects.

E. CONSTRUCTION OF ACCESS ROADS, HAUL ROADS, OR OTHER

PHYSICAL FACILITIES ON LEASED PREMISES Lessee shall comply with all TDEC Rules and Regulations and Rules of the Tennessee Department of Agriculture Division of Forestry Chapter 0080-7-3, Forestry Best Management Practices required for prudent operation pertaining to well site and access road construction and maintenance. No roads more than twelve (12) percent in grade will be built without written approval. All access to the Leased Premises will be controlled by the Lessor with gate and lock control devices with access provided to Lessee for ingress and egress.

F. NOTICE TO LESSOR OF INTENT TO DRILL

For each well Lessee proposes to drill upon the Leased Premises, Lessee shall submit to Lessor a well location map identifying the approximate location of the proposed drill site. Lessor shall have twenty-one (21) days from receipt of such map, to inform Lessee in writing of any objection to proposed location. In the event Lessor fails to respond to such proposal within the above referenced twenty-one (21) days, the proposed well location shall be deemed acceptable. It is understood and agreed, however, that there shall be no drilling, and no tank for oil, drip, or condensate shall be placed, within two hundred feet (200') of any existing buildings or structures of the Lessor, its lessees or tenants, on the Leased Premises.

G. LOCATION, RELOCATION, BURIAL AND MARKING OF PIPELINES

It is understood and agreed that the gathering lines permitted under this Lease are for the purpose of gathering Oil and Gas produced from wells on the Leased Premises. In the event a pipeline constructed under the terms of this Lease interferes with Lessor's use of the property, then upon written request of Lessor, Lessee and Lessor agree to negotiate in good faith to relocate such pipeline to a reasonable alternate route. All expenses associated with pipeline relocations shall be borne equally by Lessee and Lessor.

Lessee will bury any or all pipelines to a minimum depth of twenty four (24) inches and in accordance with TDEC Rules and Regulations. Lessee shall pay in full all damage to growing crops, fences, timber or other property occasioned by the necessary operations under this Lease. All pipelines shall be at a safe depth or height when crossing railroads, highways, access roads, haul roads, or timber haul roads. The presence of buried lines shall be indicated by proper markers and

all pipeline rights of way will be routinely maintained and kept free of brush. Pipeline markers shall be erected and maintained at intervals to allow visual sighting from consecutive markers.

H. GAS STORAGE/DISPOSAL OF PRODUCED FLUIDS ON LEASED PREMISES

Lessee shall have no right to utilize any subsurface strata beneath the Leased Premises for the purposes of gas storage or disposal of produced fluids; provided however that in the event Lessee deems such rights are necessary for the economic development of the Leased Premises, Lessor agrees to enter into good-faith negotiations with Lessee in order to develop a separate agreement providing Lessee with such rights.

I. PLUGGING OF WELLS

If Lessee completes, or has completed, a well on the Leased Premises which is not capable, or is no longer capable, of producing gas or oil in paying quantities, Lessee shall permanently plug and abandon such well within two (2) years of its date of completion in accordance with state regulation, or of the date on which it is shut in due to its failure to produce in paying quantities. However, if shut-in royalties are being paid, pursuant to paragraph 5G, on a well which is not capable of producing in paying quantities in order to maintain the Lease in force as to such well, such well shall be permanently plugged and abandoned within two (2) years of the last date for which shut-in royalties have been paid. Prior to Lessee plugging a well, the Lessor shall be given the right to utilize the well for Lessor's use.

11. SURRENDER

Lessee, not being in default of any of the covenants and conditions herein contained, shall have the right at any time or times to execute and deliver to Lessor and place of record a release or releases covering any portion or portions of the Leased Premises and thereby surrender this Lease as to such portion or portions and be relieved of all obligations thereafter accruing as to the acreage surrendered. Thereafter, the rental payable hereunder shall be reduced in the proportion that the acreage covered hereby is reduced by said release or releases. In the event Lessee surrenders portions of the Leased Premises, it shall be deemed to have reserved necessary rights-of-way and easements over the surrendered portion(s) of the Leased Premises and all other rights reasonably necessary for the development and operation of Oil and Gas on the unsurrendered portions of the Leased Premises. The reserved rights shall be exercised so as not to unreasonably interfere with the operations of Lessor thereon, and in accordance with the terms hereof. Subject to the other provisions of this Lease, in the event Lessee surrenders all remaining acreage covered by this Lease pursuant to terms of this section, Lessee may retain each well actually producing together with such acreage as is necessary to comprise a drilling and production unit as dictated by the State of Tennessee's minimum spacing and distance requirements.

Lessee may, upon termination or surrender in whole or in part of this Lease, remove its pipelines, machinery, fixtures, tools, and casings of its wells from the lands as to which this Lease is terminated within six (6) months thereafter. Also, within a one (1) year period, at the sole election of Lessor with respect to each well, Lessee shall either promptly and properly plug or abandon such well or shall properly convey such well to Lessor.

12. TERMINATION

It is specifically agreed by the parties hereto that should this Lease be terminated for any reason, Lessee's obligations to comply with any and all federal, state or local laws, rules or regulations, in connection with the Leased Premises, specifically including but not limited to, the obligation to plug and abandon the wells and to reclaim the well sites, shall survive the termination of this Lease. In addition, the indemnity provisions provided herein shall survive the termination of this Lease.

13. TAXES

Lessee shall be responsible for paying all production, severance (except those due on Lessor's royalty production not expressly waived by the appropriate taxing authority), excise, gathering, property and other taxes, levies and assessments which may be levied or assessed upon or with respect to the production of Oil and Gas attributable to the Leased Premises by a federal, state, county or local taxing authority. Lessee shall pay any and all taxes under any statutes of laws now or hereafter in force or effect against all improvements and property, which may be placed by the Lessee on the Leased Premises. If any such taxes, levies, or assessments herein provided to be paid by the Lessee are for any reason required to be paid by the Lessor, the Lessee shall promptly repay to the Lessor the amount thereof.

14. ASSIGNMENT AND SUBLEASE

Lessee shall not have the right to transfer, encumber, sublease or assign this Lease or any interest in the Leased Premises, in whole or in part, without first obtaining Lessor's written consent, which consent shall not be unreasonably withheld. For purposes hereof "transfer" or "assign" and "assignment" shall each be deemed to include any transaction resulting in a change of control of the rights and obligations herein, whether by voluntary action or operation of law, including but not limited to a sale of stock, or a sale of stock

so as to transfer voting control, a sale of assets, or corporate merger or consolidation. Additionally, for purposes hereof, "encumbrance" shall be deemed to include, but not be limited to, overriding royalties and mortgages. The consent of Lessor to any assignment, sublease, encumbrance, or transfer shall not be deemed consent to future assignments, subleases, encumbrances, or transfers of the Leased Premises. Any document or documents effecting a transfer, encumbrance, sublease, or assignment of the Leased Premises must be made expressly subject to all terms and conditions of this Lease and any such transfer, encumbrance, sublease or assignment shall not relieve Lessee from its obligations under this Lease.

15. INFORMATION

- A. Annually in January, Lessee shall report to Lessor in writing on its development and production plans for the Leased Premises for the calendar year. The report will include, as a minimum, Lessee's well development plans in all locations, an estimate of the Oil and Gas volume to be produced based on previous wells, and an estimate of the market and royalty value of the projected volume.
  
- B. Lessee shall furnish Lessor all available information on the Leased Premises as may be acquired in the drilling of wells and shall deliver to Lessor a true and complete record of each well drilled hereunder. Lessee will furnish Lessor a copy of each electric or other log run on wells drilled upon the Leased Premises or on lands pools and unitized therewith within seven (7) days after having run such logs. Lessor shall be entitled to inspect adequate portions of all cores, samples and cuttings as taken from all wells.

Lessor or Lessor's agent, at Lessor's risk, shall at all reasonable times have the right to inspect Lessee's operations, and may request access to the derrick floor,

subject to compliance with all safety regulations and approval by the tool pusher and the right to witness the gauging of all tanks and to gauge all tanks. Lessee shall furnish Lessor a copy of all land surveys and title opinions made by or for Lessee concerning the Leased Premises, as well as all maps submitted by Lessee to any state or federal agency. Furthermore, Lessee shall provide to Lessor a copy of each and every application, notification, report, and other filing made to state or federal regulatory agencies concerning operations on or attributable to the Leased Premises at the same time as such application, notification or filing is made.

- C. Lessor shall have the right, upon the giving of written notice of at least thirty (30) days in advance to Lessee, to audit the records of Lessee related to Lessee's accounting and distribution of funds related to the Leased Premises for any calendar year within the thirty-six (36) month period preceding the date of notice. Lessor shall make every reasonable effort to conduct an audit in a manner and at times which will result in a minimum of inconvenience to Lessee. Lessee shall bear no portion of Lessor's audit costs incurred under this paragraph. Lessee shall keep its records for a period of three (3) full years from the date of final payment and be subject to audit by the State of Tennessee Comptroller.

16. NOTICES

Whenever under the terms of this Lease written notice is required to be given, such requirement shall be complied with by either party by the sending of notice via facsimile, Federal Express or other such recognized overnight service with proof of delivery, or by certified U.S. mail with return receipt requested, addressed to the parties entitled to receive same, as follows:

To Lessor:

Office of Real Estate Administration  
University of Tennessee  
1331 Circle Park  
711 Andy Holt Tower  
Knoxville, TN 37996-0174

With a copy to:

Dean of Experiment Station  
The University of Tennessee  
103-D Morgan Hall  
2621 Morgan Circle Drive  
Knoxville, TN 37996-4506

To Lessee:

17. INSURANCE

Lessee shall maintain, at Lessee's sole cost, and shall require any subcontractors Lessee may engage to maintain, at all times while performing services pursuant to this Lease, the insurance coverages set forth below with companies satisfactory to Lessor, with policy limits in amounts not less than those applicable for such coverages as set forth. A certificate naming Lessor as an additional named insured, evidencing coverages and referring specifically to the indemnification provision set forth herein shall be delivered to Lessor prior to commencement of any work pursuant hereto. Such certificate shall provide that any change restricting or reducing any such coverage or the cancellation of any policy under which any such certificate is issued shall not be valid as respects Lessor's interest therein until Lessor has received at least 30 days' notice in writing of such change or cancellation:

1. **Workers' Compensation Insurance** - as required by the laws and regulations applicable to and covering employees of Lessee engaged in the performance of services pursuant to this Lease.
  
2. **Employer's Liability Insurance** - protecting Lessee against common law liability, in the absence of statutory liability, for employee bodily injury with a limit of not less than \$1,000,000.
  
3. **General Liability Insurance** - with Broad Form Extension including contractual liability, products/completed operations with limits of liability of not less than: \$1,000,000 Combined Single Limit (Bodily Injury and Property Damage). This policy shall cover, among other risks, the contractual liability assumed under the indemnification provision set forth in this Agreement, damage from explosion, collapse, underground subsidence and damage from pollution.
  
4. **Automobile Liability Insurance** - including non-owned and hired vehicle coverage with limits of liability of not less than: \$1,000,000 Combined Single Limit (Bodily Injury and Property Damage).
  
5. **Excess (Umbrella) Liability Insurance** - over Comprehensive General Liability and Automobile Liability insurance coverage afforded by the primary policies described above, with minimum limits of \$10,000,000 excess of the specific limits.

Each policy shall be endorsed to provide waiver of subrogation rights in favor of Lessor, its affiliates, and all other parties owning an interest in the Lease.

Failure of the Lessee to keep the required insurance policies in full force and effect during the term hereof and during any extensions shall constitute a breach of this Lease and Lessor shall have the right, in addition to any other rights, to immediately cancel and terminate this Lease without further cost to Lessor.

Nothing contained in these provisions relating to coverage and amounts of insurance set out herein shall operate as a limitation of Lessee's liability under the terms of this Lease.

18. INDEMNIFICATION

Lessee hereby agrees to protect, indemnify, defend and hold harmless Lessor, its successors, assigns, officers, directors, employees, parent, affiliated, and related companies, from and against any and all debts, expenses, liabilities, obligations, claims, losses, actions, causes of action, charges, costs, levies, fines, penalties, damages or injuries, (including injury or death to persons), and property damage caused in any way by Lessee, by Lessee's failure to comply with any applicable federal, state or local law, order, rule or regulation or by the acts, omissions or operations of Lessee, its agents, employees or independent contractors having to do with the Leased Premises or lands pooled or unitized therewith. The covenants set forth in this paragraph shall survive the termination of this Lease.

19. FORCE MAJEURE

This Lease shall not be terminated, in whole or in part, nor Lessee be held liable for damages, for failure to comply with the terms and conditions herein so far as they are affected by force majeure and only for so long as the continuance of the force majeure but for no longer period. Force majeure shall occur if compliance is prevented by, or if such failure is the result of any law, order, rule or regulation, labor dispute, inability to obtain material, failure of transportation, or other cause beyond the reasonable control of

Lessee, provided that Lessee gives prompt notice and full particulars of such force majeure, in writing, to Lessor as soon as possible after the occurrence of the cause of the force majeure.

20. ADDITIONAL RESERVED RIGHTS

A. Unless Lessee has production from Lessor's lease, it is expressly understood and agreed that Lessee shall have no right to transport across the Leased Premises, gas or oil produced from wells that are not located upon, or pooled or unitized with, the Leased Premises without first obtaining the written agreement and consent from Lessor so to do.

B. All rights not expressly granted herein are reserved by Lessor.

21. NO WARRANTY

Lessor and its representatives and advisers make no representation, warranty or other assurance as to the accuracy, completeness or validity of any statements, estimates or information (Information) that may have been provided to Lessee and such Information shall not be relied upon as setting forth any promise or statement of fact. Lessee agrees that neither Lessor nor its representatives or advisors shall have any liability to Lessee or any of Lessee's representatives or advisors resulting from the use of any Information.

22. GOVERNING LAW

This Lease shall be governed by, and construed in accordance with, the laws of the State of Tennessee.

23. HEADINGS

The headings preceding the text of the sections hereof are solely for the convenience of reference and shall not constitute a part of this Lease or affect its meaning, construction or effect.

24. WAIVERS

It is understood and agreed that no failure or delay by Lessor in exercising any right, power or privilege hereunder will operate as a waiver thereof, nor will any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right, power or privilege hereunder.

25. BREACH

Lessee acknowledges that remedies at law may be inadequate to protect against breach in the terms of this Agreement. Lessee agrees that Lessor shall be entitled to equitable relief, including injunction and specific performance, in the event of any breach of the provisions of this Agreement, in addition to all other remedies available to Lessor at law or in equity. Lessee hereby agrees in advance to the granting of injunctive relief in Lessor's favor without proof of actual damages.

26. MODIFICATION AND ALTERATION

This Agreement, its Exhibits and Attachments, including the RFP and Proposal, become part of this agreement and are incorporated herein by reference to form the entire Agreement by and between Lessor and Lessee. This Agreement may be modified or replaced only by separate written agreement by and between Lessor and Lessee expressly so modifying or replacing this Agreement. No modification, alteration, waiver, or addition to this Agreement or any part thereof shall be valid, binding or relied upon by either party nor shall any evidence of such modification, alteration, waiver or additions

be received in any controversy arising out of this Agreement, except as provided in this article.

27. SUCCESSORS AND ASSIGNS

All terms, provisions, covenants, conditions, agreements and limitations herein contained shall be binding upon and inure to the benefit of the parties hereto, their respective successors and assigns.

28. MEMORANDUM OF LEASE

The parties agree to execute this Lease in duplicate originals. Further, should Lessee elect, the parties may execute a Memorandum of Lease and record said Memorandum in the appropriate counties in which the Leased Premises are situated.

IN WITNESS WHEREOF, the parties have executed this Lease by their respective duly authorized officers effective as of the day and year first above written,

LESSOR:

DEPARTMENT OF FINANCE & ADMINISTRATION

\_\_\_\_\_  
M.D. GOETZ, JR., COMMISSIONER

THE UNIVERSITY OF TENNESSEE

By: \_\_\_\_\_

Its: \_\_\_\_\_

APPROVED:

\_\_\_\_\_  
PHIL BREDESEN, GOVERNOR

\_\_\_\_\_  
ROBERT E. COOPER, JR., ATTORNEY GENERAL  
For form and legality

LESSEE:

By: \_\_\_\_\_

Its: \_\_\_\_\_

EXHIBIT A

to

OIL AND GAS LEASE

by and between

THE UNIVERSITY OF TENNESSEE and \_\_\_\_\_

effective \_\_\_\_\_, 200\_

Those certain tracts or parcels of land situated in Morgan and Scott Counties, Tennessee, more particularly as follows:

The foregoing, comprising eight thousand six hundred (8,600) acres, more or less, less and except any existing leases (by Lease Agreement dated August 28, 1991, a Memorandum of which is recorded on May 12, 1992 in Oil and Gas Lease Book 38, Page 24 in the office of the Register, Morgan County, Tennessee, hereinafter referred to as "1991 Lease," The University of Tennessee, leased land located in Morgan County, Tennessee, to American Gas Technologies, Inc., as Lessee, and, furthermore, being the same by Assignment effective May 29, 1992, and recorded in Book M, Volume 49, page 414, Oil & Gas Lease Book 38, page 75 in the Office of the Register, Morgan County, Tennessee, American Gas Technologies transferred and assigned its interest in and to the 1991 Lease to Tennessee Energy Pipeline & Storage Company, Tennessee Energy Pipeline and Storage Co., Canonic Energy, Inc., WGI, Inc., Coal Creek Mining and Manufacturing Company, American Resource Management, Inc., and American Energy Exploration, Inc., and being the same land conveyed to Lessor by The Bryn Mawr Mining and Land Company deed dated January 5, 1937, recorded in Deed Book E, Vol. 4, Page 411-416, Morgan County, Tennessee Registers Office; The Bryn Mawr Mining and Land Company deed dated January 5, 1937, recorded in Deed Book 66, Page 363, Scott County, Tennessee Registers Office; R. B. Cassell deed dated July 17, 1950, recorded in Deed Book Y, Vol. 4, Page 416-419, Morgan County, Tennessee Registers Office; by Ezra Worley and wife, Josie Worley, deed dated March 11, 1957, recorded in Deed Book I, Vol. 5, Page 444-446, Morgan County, Tennessee Registers Office; and by Molly Cheryl Butler Goforth Hampton, husband, Larry Hampton through Petition of Condemnation dated October 21, 1991 and Order of Taking dated January 30, 1992, recorded in Miscellaneous Series 47, page 424, Morgan County, Tennessee Registers Office.

# Exhibit B

## University of Tennessee Brushy Mountain Tract (Morgan County, TN) 2,792 Potential Lease Acres



Goforth Purchase  
Misc. Bk. 47, Pg 424  
Jan 30, 1992  
48 +/- Acres

Worley Purchase  
WD Bk. I-5, Pg. 444  
Mar. 11, 1957  
10 +/- Acres

Cassell Purchase  
Deed Bk. Y-4, Pg. 416  
July 17, 1950  
311 +/- Acres

University of Tennessee  
WD Bk. E-4, Pg. 411-416  
Jan. 5, 1937  
2,393 +/- Acres

Under Lease  
Oil & Gas Bk. 38, Pg. 24  
August 26, 1991  
250 +/- Acres

Six +/- Acres  
Easement  
Morgan Co. TN

To Warburg, TN

State Route 62

With meanders of Little Emory

Cassell Road



NOTE: Property lines and other map features drawn from a combination of survey plats and are not guaranteed to be exact.

**University of Tennessee  
Scott/Morgan Tract  
4,628 Potential Lease Acres**

Property Line Established by Court Decree  
Jimmy Young vs. University of Tennessee  
Scott County Chancery Ct. No. 4775 (1981)



Cowan Creek

UT/Payne-Baker "Compromise Line"

**University of Tennessee**  
Scott Co. Deed Bk. 66, Pg. 363  
Jan. 5, 1937  
3680 +/- Acres

Mineral Interest  
110 +/- Acres  
Scott Co. DB 66  
Pg. 363  
3rd. Tract

Mineral Interest  
138 +/- Acres  
Morgan Co. DB O,  
Vol. 2, Pg. 473

Scott County  
Morgan County



NOTE: Property lines and other map features drawn from a combination of survey plats and are not guaranteed to be exact.

722 +/- Acres

Young Creek

Grassy Creek

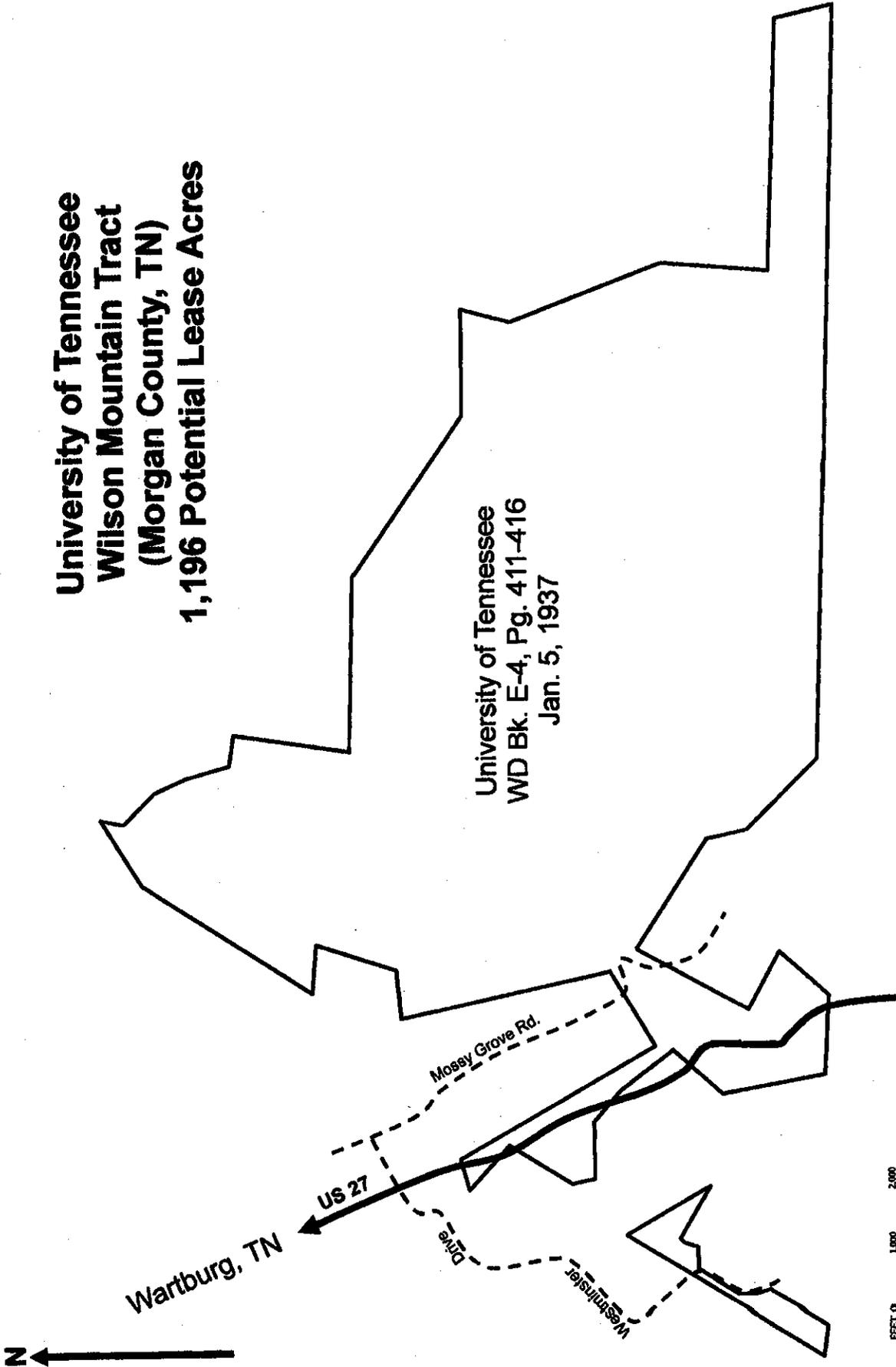
Cove (Coal) Branch

Sulphur Spr. Br.

**Exhibit B**

**University of Tennessee  
Wilson Mountain Tract  
(Morgan County, TN)  
1,196 Potential Lease Acres**

University of Tennessee  
WD Bk. E-4, Pg. 411-416  
Jan. 5, 1937



NOTE: Property lines and other map features drawn from a combination of survey plats and are not guaranteed to be exact.